Government of Saskatchewan

Annual Report 2001-2002

Agricultural Credit Corporation of Saskatchewan

102-07099/

Letter of Transmittal

Regina, Saskatchewan
April 17, 2002

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2002.

Respectfully submitted,

Clay Serby

Honourable Clay Serby
Minister Responsible for the
Agricultural Credit Corporation of Saskatchewan

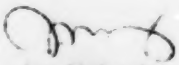
Year in Review

During the fiscal year 2001-2002 the wind down of the Corporation's loan portfolio continued in a timely and efficient manner with staff achieving many of the targets set in the previous year's planning sessions. Currently, there are 23 Saskatchewan Agriculture and Food staff administering the ACS loan portfolio in addition to providing support to other department agencies.

When the announcement to wind down ACS loan portfolio was made in March of 1996, approximately $382.5 million was outstanding to 20,500 customers under all loan programs. Of this total, $94 million was in a delinquent status. After six years, the outstanding 3,248 loans have been reduced to $71.8 million of which $12.9 million is delinquent.

For 2001-2002, ACS had a target to resolve 330 loans of the 807 that were more than 400 days delinquent. Targets were exceeded and as of March 31, 2002, a total of 457 loans were resolved. Progress was also made in reducing the total delinquent dollars by 22 per cent during the fiscal year 2001-2002.

ACS staff continues to work diligently and sensitively with customers during these difficult times facing the agriculture industry. They have made good, steady progress on the loan portfolio wind down while maintaining a high level of customer service and are continually striving to meet and exceed the Corporation's goals.



Joe Rakochy
Manager

Management's Responsibility for the Annual Report

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where estimates are used, they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors met periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by PricewaterhouseCoopers LLP whose report follows.

Joe Rakochy
Manager

Swift Current, Saskatchewan
April 17, 2002

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the balance sheet of **Agricultural Credit Corporation of Saskatchewan** as at March 31, 2002, and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Regina, Saskatchewan
April 17, 2002

Agricultural Credit Corporation of Saskatchewan
Balance Sheet
As at March 31, 2002

(in thousands of dollars)

	2002 $	2001 $
Assets		
Cash and short term investments	191	3,216
Accounts receivable	17	307
Loans receivable (notes 4, 5 and 6)	44,533	50,049
Assets held for resale (notes 6 and 7)	7,174	9,667
	51,915	63,239
Liabilities		
Notes payable (note 8)	5,400	-
Interest and other accrued payables	1,502	2,645
Unexpended grants payable (Schedule 1)	423	254
Long-term debt (note 8)	33,951	59,835
	41,276	62,734
Equity		
Accumulated surplus	10,639	505
	51,915	63,239

Contingencies and commitments (note 10)

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors

_____ Director

_____ Director

Agricultural Credit Corporation of Saskatchewan
Statement of Operations and Surplus
For the year ended March 31, 2002

(in thousands of dollars)

	2002 $	2001 $
Interest and dividend income (note 9)		
Loans receivable	7,130	8,387
Sinking fund and short-term investments	386	7,461
	7,516	15,848
Interest expense		
Long-term debt	7,718	23,465
Net interest expense	202	7,617
Loan loss (recoveries) losses (note 6)	(9,651)	632
CAFF recoveries	(483)	-
Administrative expenses	-	2,601
Other income	-	(303)
(Surplus) loss before the following	(9,932)	10,547
Grants (Schedule 1)	625	10,801
Surplus before unexpended grants repayable	10,557	254
Unexpended grants (Schedule 1)	(423)	(254)
Surplus for the year	10,134	-
Surplus – Beginning of year	505	505
Surplus – End of year	10,639	505

The accompanying notes are an integral part of the financial statements.

Agricultural Credit Corporation of Saskatchewan
Statement of Cash Flows
For the year ended March 31, 2002

(in thousands of dollars)

	2002 $	2001 $
Cash provided by (used in)		
Operating activities		
Surplus for the year	10,134	-
Less sinking fund interest	(254)	(7,104)
Item not affecting cash		
Loan loss (recovery) provision	(9,651)	632
Change in working capital other than cash (note 12)	5,238	(3,048)
Write-offs, recoveries in allowance	(566)	-
Loan payments received	12,304	12,688
	17,205	3,168
Financing activities		
Repayments of long-term debt	(33,000)	(168,600)
Retirement of sinking fund	7,116	150,541
Sinking fund interest	254	7,104
Proceeds from new debt	5,400	-
	(20,230)	(10,955)
Net decrease in cash	(3,025)	(7,787)
Cash and other equivalents – Beginning of the year	3,216	11,003
Cash and other equivalents – End of the year	191	3,216

The accompanying notes are an integral part of the financial statements.

1 Status of Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS) is a Corporation that acts as an agent of the Government of Saskatchewan and has provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the province. On March 28, 1996, the Government of Saskatchewan announced that the ACS portfolio would be wound down. All ACS employees were transferred to Saskatchewan Agriculture and Food. However, ACS is still responsible for collection of the loan funds, monitoring loan collectibility and retirement of the debt.

2 Significant accounting policies

a) Under Section 29 of The Agricultural Credit Corporation of Saskatchewan Act, the Minister of Agriculture and Food may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs and interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the balance sheet as unexpended grants repayable.

New expenditures incurred in a fiscal year that exceed the grant provided for that purpose are reported as a deficit for the year and may be recovered from the grant to be received for that purpose in a subsequent year.

b) Amounts recovered from customers for capital grants paid to them in prior years and amounts recovered for guarantees paid under discontinued programs are retained by the Corporation and are reported as surplus.

c) Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and are included in interest expense on long-term debt.

d) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. These asset values are adjusted annually for carrying costs and for the income or loss from any operations associated with the assets. The provision for losses represents management's estimate of possible losses on assets held for resale.

3 Measurement uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. The Corporation reviews its overall allowance for loan loss and this process is subject to significant management judgement. In addition, there is management judgement involved in estimating the fair value of assets held for resale. Due to uncertainties inherent in these estimation processes, it is possible that changes in the future conditions may cause recorded amounts to change by a material amount in the near term.

4 Loan programs

a) Capital loan program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 6 per cent and 13.5 per cent. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment loan program

Investment loans bear interest at rates between 8.5 per cent and 10.5 per cent and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production loan program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6 per cent, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2 per cent. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9 per cent.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock cash advance program

Effective August 1, 1993, customers with Livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2 per cent over a maximum five-year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9 per cent.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Spring seeding loan program

During the 1992 fiscal year, the Corporation paid out $48.6 million to honour guarantees on loans granted by financial institutions under the Spring seeding loan program. The loans bear interest at prime plus 2 per cent.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

f) Counselling and assistance for farmers program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees which were outstanding under the Counselling and assistance for farmers program. The Corporation did not issue new guarantees under this program. The existing guarantees had been renewed until March 31, 1995, at which time the program was terminated.

The majority of the loans under this program are in default, have had judgements obtained on them and bear interest at 5 per cent.

The loans are secured by way of an assignment of security from the original lender.

g) Other loans

The Corporation is continuing collection of cash advances made to cattle producers up to March 31, 1980, under Part VI, VII, VIII of the Regulations under The Agricultural Incentives Act.

The loans are secured by promissory notes.

5 Loans receivables

	2002			2001		
	Gross	Allowance	Net	Gross	Allowance	Net
	$	$	$	$	$	$
		(in thousands of dollars)			(in thousands of dollars)	
Capital loans	63,967	20,961	43,006	79,552	32,066	47,486
Investment loans	367	80	287	694	69	625
Production loans	1,781	981	800	2,526	1,297	1,229
Livestock cash advances	988	562	426	1,517	845	672
Spring seeding loans	24	10	14	54	17	37
Counselling and assistance for farmers loans	1,349	1,349	-	1,832	1,832	-
Other loans	-	-	-	1	1	-
	68,476	23,943	44,533	86,176	36,127	50,049

During the year, a number of the Corporation's customers refinanced their Production loans, Livestock cash advances, Spring seeding loans and Counselling and assistance for farmers loans under the Capital loan program.

6 Allowance for losses

	Loans $	Assets held for resale $	2002 $	2001 $
			(in thousands of dollars)	
Balance – Beginning of year	36,127	2,795	38,922	40,555
Losses, write-offs and recoveries	(2,533)	302	(2,231)	(2,265)
Loan loss (recovery) provision	(9,651)	-	(9,651)	632
Balance – End of the year	23,943	3,097	27,040	38,922

The allowance for loan losses for Capital loans, Production loans, Livestock cash advances, Spring seeding loans, Counselling and assistance for farmers loans and Other loans was funded by a grant from Province of Saskatchewan, Department of Agriculture and Food.

Based on the yearly analysis performed by management, a recovery of $9,651,000 was recorded. This recovery does not represent a cash surplus.

7 Assets held for resale

	2002 $	2001 $
	(in thousands of dollars)	
Cost	10,271	12,462
Allowance for losses	(3,097)	(2,795)
	7,174	9,667

8 Borrowing

Sections 17 and 19 of The Agricultural Credit Corporation of Saskatchewan Act allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2,000,000,000.

a) Long-term debt

All long-term debt is repayable to the Province of Saskatchewan General Revenue Fund. Interest is payable semi-annually with principal due at maturity.

The following is the weighted average interest rates of this debt:

Year of Maturity	2002		2001	
	Amount due $	Weighted average interest rate	Amount due $	Weighted average interest rate
	(in thousands of dollars)		(in thousands of dollars)	
Debentures				
2002	-	-	33,000	15.75%
2003	20,434	15.89%	20,434	15.89%
2004	13,517	11.59%	13,517	11.59%
	33,951	14.2%	66,951	14.9%
Less: Equity in sinking fund	-		7,116	
	33,951		59,835	

b) Notes payable

	2002 $	2001 $
Notes payable	5,400	-

All notes payable are repayable to the Province of Saskatchewan General Revenue Fund.

Notes payable are due to the Province of Saskatchewan General Revenue Fund within 90 days. Interest is charged at 2.33 per cent.

9 Interest income

Interest income and dividend income:

	2002 $	2001 $
	(in thousands of dollars)	
Loans receivable	6,761	8,341
Interest recovery on impaired loans	369	46
Short-term investments	132	357
Sinking fund investments	254	7,104
	7,516	15,848

10 Guaranteed loans under The Agricultural Credit Corporation of Saskatchewan Act

The Corporation may provide guarantees to vendors under the Guaranteed Vendor Mortgage Program for the sale of farm land and existing improvements. The guarantees are for 100 per cent of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2002, was $391,800 (2001 – $453,707).

11 Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions with various Saskatchewan crown-controlled departments, agencies and corporations with which the Corporation is related. Transactions with these parties are recorded at what management believes are normal market prices. Account balances from these transactions are included in the balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described separately in the financial statements and notes thereto.

Included in accounts receivable at March 31, 2002, is $0 (2001 – $276,500) from Saskatchewan Agriculture and Food to fund administration expenses. As well, at March 31, 2002, the Corporation owes $1,411,675 (2001 – $2,422,134) (included with interest and other accrued payables) to the Province of Saskatchewan General Revenue Fund for interest on long-term debt. In addition, included in cash and short-term investments is $0 (2001 - $3,173,320) of short-term investments held with the Department of Finance.

During the year, the Corporation was responsible for collection of inactive accounts on behalf of Saskatchewan Crop Insurance Corporation (SCIC) and Lands Branch. For these services, a commission of $54,892 (2001 - $181,008) was received from SCIC and paid back to Saskatchewan Agriculture and Food.

All administration expenses for the Corporation are paid for by Saskatchewan Agriculture and Food. These costs amounted to approximately $1,537,000 (2001 - $382,192).

12 Change in working capital other than cash

	2002 $	2001 $
	(in thousands of dollars)	
Decrease in accrued interest on loans receivable	3,341	644
Decrease in accrued interest on debt payable	(942)	(4,485)
Decrease in other non-cash items	2,493	1,913
Decrease (increase) in accounts receivable	290	(237)
Increase (decrease) in unexpended grant repayable	169	(15)
Decrease in other operating activities	(113)	(868)
	5,238	(3,048)

13 Financial instruments

Fair values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques that are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

a) Cash, short-term investments, accounts receivable, interest and other accrued payables:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

c) Notes payable and debentures payable:

The estimated fair values for all long-term debt obligations and the sinking fund are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements. The estimated fair values of these financial instruments may not represent the amounts that could be realized upon settlement.

The estimated fair values of the Corporation's debt instruments are as follows:

	2002		2001	
	Carrying amount $	Estimated fair value $	Carrying amount $	Estimated fair value $
	(in thousands of dollars)		(in thousands of dollars)	
Debentures payable	33,951	37,243	66,951	72,897
Sinking fund	-	-	(7,116)	(7,116)
	33,951	37,243	59,835	65,781

Credit risk management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Corporation requires security agreements and personal guarantees on all loans.

Interest rate risk management

The Corporation manages interest rate risk by borrowing long-term debt through the Province of Saskatchewan General Revenue Fund at fixed interest rates and terms designated to match the average terms of the Corporation's loan portfolio.

14 Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Agricultural Credit Corporation of Saskatchewan

Schedule 1 – Grants from Province of Saskatchewan – Department of Agriculture and Food

For the year ended March 31, 2002

(in thousands of dollars)

As described in Note 2a, the following table summarizes grant activity for the year ended March 31, 2002.

	2002 $	2001 $
Appropriation approved	2,000	11,774
Appropriation not required	(1,300)	(973)
Appropriation repaid	(75)	-
Grant proceeds available	625	10,801
Expenditures		
Administration	-	2,601
Interest	7,718	23,465
Provision for losses	-	632
Less		
Interest income	(7,516)	(15,848)
Other income	-	(303)
	202	10,547
Unexpended grants repayable	423	254